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KAPCHORUA TEA COMPANY LIMITED



FINANCIAL STATEMENTS

31 MARCH 2006

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KAPCHORUA TEA COMPANY LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2006

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KAPCHORUA TEA COMPANY LIMITED

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fifty Eighth ANNUAL GENERAL MEETING of the Shareholders will be held at the Nairobi Club, Ngong Road, on Wednesday 19 July 2006 at 10.00 a.m. for the following purposes.

Special Business of attending to the ordinary business as set out below:

1. To re-appoint a Director

Mr J.N Brooks who attained the age of 70 on 27 December 1996 and was duly re-appointed at the 50th Annual General Meeting on 23 July 1997 pursuant to Section 186(5) of the Companies Act retires by rotation at the fifty eighth Annual General Meeting scheduled for Wednesday 19 July 2006.

SPECIAL NOTICE is hereby given of the Board's recommendation to the members to consider the re-appointment of Mr. J.N. Brooks to the Board, and if thought fit, pass the following resolution as an ORDINARY RESOLUTION.

"That Mr. J.N.Brooks be and is hereby re-appointed as a Director pursuant to Section 186 (5) of the Companies Act"

Ordinary Business

2. To receive and adopt the report of the Directors together with the audited financial statements for the year ended 31 March 2006.
3. To declare a dividend.
4. To elect Directors:

Mr. P. Magor retires by rotation and being eligible offers himself for re-election.

In accordance with Article 114 of the Articles of Association Mr A.S Marsh who was appointed a Director of the Company on 2 March 2006 retires, and being eligible offers himself for re-election.
5. To approve the remuneration of the Directors.
6. To authorize the Directors to agree the remuneration of the Auditors.
7. To transact such other competent business as may be brought before the meeting.

BY ORDER OF THE BOARD

M M WACHIRA
SECRETARY

25 May 2006

2007/1332

A Member entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her, and such proxy need not also be a Member of the Company.

A form of proxy is provided with this report which shareholders who do not propose to be at the Meeting are requested to complete and return to the registered office of the Company so as to arrive not later than Twenty Four hours before the meeting.

KAPCHORUA TEA COMPANY LIMITED

DIRECTORS AND PROFESSIONAL ADVISERS

DIRECTORS N G Sandys-Lumsdaine* - Executive Chairman
 P Magor*
 J N Brooks
 S C A Koech
 A.S Marsh*

* British

SECRETARY M M Wachira
 Certified Public Secretary
 P O Box 42281, 00100
 Nairobi

REGISTERED OFFICE Williamson House - 1st Floor
 4th Ngong Avenue
 P O Box 42281 - 00100
 Nairobi

AUDITORS Deloitte & Touche
 Certified Public Accountants
 "Kirungii", Ring Road, Westlands
 P O Box 40092 - 00100
 Nairobi

BANKERS Barclays Bank of Kenya Ltd
 Barclays Plaza Business Centre
 Plaza Branch
 P O Box 46661 - 00100
 Nairobi

 Barclays Bank of Kenya Limited
 Eldoret Branch
 P O Box 22
 Eldoret

LAWYERS Kaplan & Stratton
 9th Floor Williamson House
 4th Ngong Avenue
 P O Box 40111 - 00100
 Nairobi

 Walker Kontos
 Hakika House
 Bishops Road
 P O Box 60680 - 00200
 Nairobi

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 March 2006.

ACTIVITIES

The principal activities of the company are the cultivation, manufacture and sale of tea.

RESULTS

	Sh'000
Loss before taxation	(13,372)
Taxation credit	3,579
Net loss for the year transferred to revenue reserve	<u>(9,793)</u>

DIVIDENDS

The directors recommend the payment of a first and final of sh 0.5 per share, totalling Sh 1,956,000 (2005-19,560,000) in respect of the year.

TEA CROP

The following are comparative tea production statistics:

Year ended 31 March	Kapchorua estate Kgs'000	Bought leaf Kgs'000	Total Kgs'000
2006	1,589	2,262	3,851
2005	1,762	2,718	4,480
2004	1,648	1,888	3,536
2003	1,765	1,641	3,406
2002	1,789	1,676	3,465
2001	1,803	1,071	2,874

The estimated tea production for the year to 31 March 2007 is 4,692,600 kilograms. This includes 2,818,000 kilograms from outgrowers.

PLANTED AREA

The planted area under tea was as follows:

	As at 31 March 2006 Hectares	As at 31 March 2005 Hectares
Mature	666.25	667.25
Immature	7.00	6.00
	<u>673.25</u>	<u>673.25</u>

KAPCHORUA TEA COMPANY LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS

The current board of directors is shown on page 3.

Mr I D C Burrige retired on 10 August 2005 and Mr A S Marsh was appointed in his place on 2 March 2006.

In accordance with Article 114 of the Articles of Association Mr A.S Marsh who was appointed a Director of the Company on 2 March 2006 retires, and being eligible offers himself for re-election.

Mr. P Magor retires by rotation in accordance with section 94 of the company's Articles of Association and, being eligible, offers himself for re-election.

Mr. J N Brooks who attained the age of 70 on 27 December 1996 retires by rotation and being eligible, offers himself for re-election.

SECRETARY

Mr. M M Wachira continues as the Company Secretary.

MANAGEMENT

Mr L Osire continues as the General Manager of The Kapchorua Estate.

AUDITORS

Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act.

BY ORDER OF THE BOARD

M M WACHIRA

Secretary

Nairobi

25 May 2006

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT

Due to the serious drought which was experienced country wide from December 2005, crop from our own Estate as well as from Outgrowers was considerably lower than last year.

The continued worldwide oversupply of Tea coupled with the strengthening of the Kenya Shilling against the Sterling Pound greatly affected our profitability resulting in a loss position from last year's profits.

The Kenya Tea Growers Association's collective bargaining agreement expired on 31st December 2005 but the negotiations of an agreement for the next two years seem to have stalled due to some disagreements on the level of mechanisation in the field operations.

The uncertainty of future weather conditions and world tea prices, together with the economic climate that surrounds us, necessitate further tightening of financial controls and considerable caution for the future.

Your Directors are therefore recommending a final dividend of cents.50 per share for the year ended 31st March 2006 (2005 - Sh 5.00)

TEA

The Factory's throughput of Kgs of made tea was made up as follows:

	<u>2006</u> Kgs	<u>2005</u> Kgs	<u>2004</u> Kgs
Own	1,589,000	1,762,000	1,648,000
Outgrowers	2,262,000	2,718,000	1,888,000
	<u>3,851,000</u>	<u>4,480,000</u>	<u>3,536,000</u>

As in previous years we continue to invest in improving the machinery in the Factory, upgrading our labour housing and welfare facilities together with transport.

SOCIAL CONTRIBUTION

The major points under this heading include: -

- i) There are currently 1,430 workers employed with over 5,000 dependants.
- ii) Our foreign currency earnings amounted to the equivalent of Sh 409,932,000 (2005 Sh 468,635,000)
- iii) The Company paid to the Government, Corporation Tax of Kshs 7,575,000 and Agricultural Produce Cess of Sh 3,200,000 to the Tea Board of Kenya to be disbursed to the County Council and Tea Roads Cess Committee for maintenance of tea roads in our district.
- iv) Revenue expenditure of Sh 20,591,000 was spent on a wide range of health, welfare, leave pay and educational services while Sh 1,708,000 was spent on Capital Expenditure in respect of Welfare Facilities.
- v) Through the Nandi Branch of the Kenya Tea Growers Association we continue to support the development of the Nandi Hills Academy and Taito Secondary School. In addition the Company is actively participating in the Nandi Hills Doctors' Scheme.
- vi) We continue to hold awards of Certificates of Compliance from the Tea Sourcing Partnership in the United Kingdom, confirming the high standards of our operating procedures and corporate social responsibility.

KAPCHORUA TEA COMPANY LIMITED

CHAIRMAN'S STATEMENT (Continued)

ENVIRONMENT

We have continued with our efforts to conserve and improve the environment mainly in the areas of re-afforestation, establishment of wetlands for the factory effluents as well as maintenance of the dams and other water resources.

CORPORATE GOVERNANCE

Your Board continues to place great emphasis on good corporate Governance and an expanded note is included on page 8 and 9.

STAFF

Luke Osire remains our General Manager and our thanks go to him and all his staff at the Estate for their efforts during the year.

DIRECTORS

I would also thank my fellow Directors for the time they spend at Board Meetings and visiting our property. Their business experience and advice is always most valuable.

N G SANDYS-LUMSDAINE

Chairman

Nairobi

25 May 2006

KAPCHORUA TEA COMPANY LIMITED

CORPORATE GOVERNANCE

Corporate Governance is the process and structure used to direct and manage business affairs of the Company towards enhancing prosperity and corporate accounting with the ultimate objective of realizing shareholders long term value while taking into account the interest of other stakeholders.

The Company is committed to business integrity and professionalism in all its activities. As part of this commitment the Board fully supports issues articulated by the Capital Market Authority so as to bring the level of governance in line with International trends.

We confirm that we are governed by the rules and regulations as issued by both the Nairobi Stock Exchange (NSE) and the Capital Markets Authority (CMA).

BOARD OF DIRECTORS

The full Board meets at least once every quarter for scheduled meetings and on other occasions to deal with specific matters that require attention between the scheduled meetings. The Directors are given appropriate and timely information so that they can make well informed and balanced business decisions as well as planning for the future and growth of the Company. Scheduled meetings include review of annual and half year accounts and annual budgets and monitoring of business and operational issues. During the year the board held 3 meetings. The Executive Chairman runs the affairs of the Company on a day to day basis assisted by a Team of able Managerial staff.

INTERNAL CONTROLS

The Board is responsible for the Company's system of Internal controls and for reviewing their effectiveness. The Company has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information.

The systems in place are designed to ensure that authority is obtained for any major transaction and that the Company complies with all Kenya Laws and Regulations, including those that govern sound financial management. Procedures are in place to ensure that all assets are subject to proper physical controls and these are professionally revalued on a regular basis.

COMMUNICATION WITH SHAREHOLDERS

The Company places a great deal of importance on communication with its shareholders and publishes in the local dailies its financial statements on half year and annual basis. The full report and accounts are distributed to all shareholders on an annual basis.

DIRECTORS EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to directors for services rendered during the financial year are disclosed in Note 3 to the financial statements. There were no directors' loans at any time during the financial year. Neither at the end of the financial year, nor at any time during the year did there exist any arrangement to which the company is a party whereby directors might acquire benefits by means of the acquisition of shares in the company.

KAPCHORUA TEA COMPANY LIMITED

CORPORATE GOVERNANCE (Continued)

MAJOR SHAREHOLDERS

The Company files a quarterly report with CMA and NSE on the top 10 major shareholders. Also investor returns are submitted on a monthly basis.

As at 31 March 2006, the top 10 shareholders were as follows:

	<u>Name</u>	<u>Location</u>	<u>No of Shares</u>	<u>%</u>
1.	Williamson Tea Kenya Limited	Nairobi	1,547,780	39.56
2.	Forest Investments Limited	London	601,604	15.38
3.	Shawmut Limited	Nairobi	489,000	12.50
4.	Makimwa Consultants Limited	Nairobi	489,000	12.50
5.	Brock Investments Limited	London	335,660	8.58
6.	Kwacha Limited	Nairobi	79,500	2.03
7.	Insurance Company of East Africa Ltd	Nairobi	65,514	1.67
8.	Eric Charles Simons	London	60,000	1.53
9.	R. C. Buxton	London	33,750	0.86
10.	John N Brooks & J T Brooks	Koru	24,300	0.62

ANALYSIS OF SHAREHOLDERS

By region:

	<u>Number</u>	<u>Shares held</u>	<u>%</u>
Foreign investors	12	1,077,140	27.50
Local investors (Individuals)	61	128,606	3.30
Local investors (Institutional)	16	2,706,254	69.20
	89	3,912,000	100.00

By shares distribution:

Less than 501	29	6,360	0.20
501-5,000	52	242,082	6.20
5,001- 100,000	3	200,514	5.10
above 100,000	5	3,463,044	88.50
	89	3,912,000	100.00

KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

SOLOMON C A KOECH

Director

JOHN NORMAN BROOKS

Director

25 May 2006

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KAPCHORUA TEA COMPANY LIMITED

We have audited the financial statements on pages 12 to 32 for the year ended 31 March 2006 and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

Respective responsibilities of directors and auditors

As described on page 10, the directors are responsible for the preparation of the financial statements. Our responsibility is to express an opinion on those financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the directors, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept by the company and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 March 2006 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

DELOITTE & TOUCHE

14 June 2006

Audit . Tax . Consulting . Financial Advisory. 11

A member firm of
Deloitte Touche Tohmatsu

Partners: D.M. Ndonye H. Gadhoke* D.C. Hodges* J.M. Kiarie M.M. Kisuu S.O. Onyango J.W. Wangai
*British

KAPCHORUA TEA COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 Sh'000	2005 Sh'000
TURNOVER	2(a)	462,749	571,853
LOSS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS	12	(2,585)	(5,487)
OPERATING INCOME		460,164	566,366
COST OF SALES		(426,093)	(479,319)
GROSS PROFIT		34,041	87,047
OTHER OPERATING INCOME		2,152	3,478
DISTRIBUTION COSTS		(30,728)	(36,971)
ADMINISTRATIVE EXPENSES		(11,741)	(15,121)
OPERATING (LOSS)/PROFIT	3	(6,246)	38,433
NET FINANCE COSTS	5	(7,126)	(1,156)
(LOSS)/PROFIT BEFORE TAXATION		(13,372)	37,277
TAXATION CREDIT/(CHARGE)	6	3,579	(11,188)
NET (LOSS)/PROFIT FOR THE YEAR		(9,793)	26,089
COMPRISING:			
(LOSS)/PROFIT ARISING FROM OPERATING ACTIVITIES		(7,983)	29,930
LOSS ARISING FROM CHANGES IN FAIR VALUE OF BIOLOGICAL ASSETS (NET OF ATTRIBUTABLE TAXATION)		(1,810)	(3,841)
		(9,793)	26,089
(LOSS)/EARNINGS PER SHARE-Basic and diluted (Sh)	7	(2.50)	6.67
DIVIDENDS PER SHARE (Sh)	8	0.50	5.00

KAPCHORUA TEA COMPANY LIMITED

BALANCE SHEET

31 MARCH 2006

	2006	2005
	Sh'000	Sh'000
ASSETS		
Non current assets		
Property, plant and equipment	234,930	242,732
Prepaid operating leases	21,861	21,885
Investments	717	698
Biological assets	546,798	544,748
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Current assets		
Inventories	29,738	67,920
Trade and other receivables	95,162	144,126
Due from related companies	584	342
Tax recoverable	8,192	617
Cash and bank balances	27,419	11,712
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KAPCHORUA TEA COMPANY LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2006

	Share capital Sh'000	Revaluation surplus Sh'000	Revenue Reserves			Proposed dividend Sh'000	Total Sh'000
			Biological assets Sh'000	Other Sh'000	Total Sh'000		
At 1 April 2004	19,560	64,521	284,983	288,911	573,894	14,670	672,645
Excess depreciation transfer	-	(7,240)	-	7,240	7,240	-	-
Deferred tax on excess depreciation	-	2,172	-	(2,172)	(2,172)	-	-
Dividend paid - 2005	-	-	-	-	-	(14,670)	(14,670)
Net profit for the year	-	-	(3,841)	29,930	26,089	-	26,089
Proposed dividend - 2005	-	-	-	(19,560)	(19,560)	19,560	-
At 31 March 2005	19,560	59,453	281,142	304,349	585,491	19,560	684,064
At 1 April 2005	19,560	59,453	281,142	304,349	585,491	19,560	684,064
Excess depreciation transfer:	-	(6,582)	-	6,582	6,582	-	-
Deferred tax on excess depreciation	-	1,975	-	(1,975)	(1,975)	-	-
Dividend paid - 2005	-	-	-	-	-	(19,560)	(19,560)
Net loss for the year	-	-	(1,810)	(7,983)	(9,793)	-	(9,793)
At 31 March 2006	19,560	54,846	279,332	300,973	580,305	-	654,711

The revaluation surplus arises on revaluation of property, plant and equipment and is not distributable.

KAPCHORUA TEA COMPANY LIMITED

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	Note	2006 Sh'000	2005 Sh'000
OPERATING ACTIVITIES			
Cash generated from operations	21(a)	66,731	54,533
Interest paid		(3,316)	(1,333)
Taxation paid		(7,575)	(20,772)
		<hr/>	<hr/>
Net cash generated from operating activities		55,840	32,428
		<hr/>	<hr/>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(17,787)	(51,376)
Proceeds from disposal of property, plant and equipment		1,674	1,267
Dividends received		756	1,524
Purchase of shares		(19)	(654)
Expenditure on biological assets		(4,635)	(1,348)
		<hr/>	<hr/>
Net cash used in investing activities		(20,011)	(50,587)
		<hr/>	<hr/>
FINANCING ACTIVITIES			
Loans repaid	21(b)	(7,209)	(6,170)
Loans received	21(b)	-	3,750
Dividends paid		(19,560)	(14,670)
		<hr/>	<hr/>
Net cash used in financing activities		(26,769)	(17,090)
		<hr/>	<hr/>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		9,060	(35,249)
CASH AND CASH EQUIVALENTS AT 1 APRIL		11,712	46,961
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 MARCH	21(c)	20,772	11,712
		<hr/>	<hr/>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Retirement benefit obligations

The company operates a defined contribution scheme for eligible non-unionisable employees. The scheme is administered by the company and is funded from contributions from both the company and employees. The company's contributions to the defined contribution plan are charged to the income statement in the year to which they relate.

The company also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time, currently Sh 200 per employee per month. The company's contributions are charged to the income statement in the year to which they relate.

Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Unionisable staff who resign or whose services are terminated either due to illness or other reasons after completion of ten years of continuous and meritorious service with the company are entitled to twenty one days pay for each completed year of service by way of gratuity, based on the wages or salary at the time of such resignation or termination of services, as provided for in the trade union agreement with the company. An employee who is dismissed or terminated for gross misconduct is not entitled to gratuity. The service gratuity is provided for in the financial statements based on the present value of benefits payable as they accrue to each employee.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its financial assets, tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains and losses on exchange are dealt with in the income statement.

Financial instruments

Financial assets and liabilities are recognised on the company's balance sheet when the company has become a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are carried at anticipated realisable value. An estimate is made for doubtful receivables based on the review of all outstanding amounts at the year end. Bad debts are written off when all reasonable steps to recover them have failed.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the company has expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Held to maturity investments

The company follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the company evaluates its intention and ability to hold such investments to maturity. If the company fails to keep these assets to maturity, for example selling an insignificant amount close to maturity, it will be required to classify the entire class as available for sale. The assets would therefore have to be measured at fair value and not amortised cost with the difference arising from this change in valuation being a corresponding entry in the fair value reserve in shareholders' equity.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period they arise.

Trade payables

Trade payables are stated at their nominal value.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Critical accounting estimates and assumptions

Biological assets (i.e. tea bushes)

In determining the fair value of biological assets, the company uses the present value of expected cashflows from the asset discounted at the current market determined pre tax rate. The objective of a calculation of the present value of expected net cash flows is to determine the fair value of a biological asset in its present location and condition. The group considers this in determining an appropriate discount rate to be used and in estimating expected net cash flows. Management uses estimates based on historical data relating to yields, prices of made tea and exchange rates. The methodology and assumptions used for estimating both the amount and timing of future cashflows are reviewed to reduce any differences between estimates and actual experience. The significant assumptions are set out in note 12.

Property, plant and equipment

Critical estimates are made by the director in determining depreciation rates for property plant and equipment

2 SEGMENTAL INFORMATION

(a) Primary reporting format – business segments

The company's revenues are derived from sales of the following products:

	2006 Sh'000	2005 Sh'000
Tea sales	447,694	536,727
Timber sales	15,055	35,126
	<u>462,749</u>	<u>571,853</u>

(b) Secondary reporting – geographical segments

The company's revenues are derived from sales in the following markets:

	2006 Sh'000	2005 Sh'000
Off – shore markets	325,968	417,986
Kenya	136,781	153,867
	<u>462,749</u>	<u>571,853</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Sh'000	2005 Sh'000
3 OPERATING (LOSS)/PROFIT		
The operating (loss)/profit is arrived at after charging		
Depreciation	25,347	22,161
Leasehold land amortisation	24	24
Directors' emoluments: - fees	250	250
- other emoluments	106	106
Staff costs (Note 4)	122,769	116,648
Auditors' remuneration - current	967	767
- prior	-	136
and after crediting:		
Fair value of agricultural produce harvested during the year	52,467	75,247
Profit on disposal of plant and equipment	1,432	925
	<u>=====</u>	<u>=====</u>
4 STAFF COSTS		
Wages and salaries	95,756	93,322
Social security costs (NSSF)	3,399	3,681
Pension costs (defined contribution plan)	713	717
Service gratuity and other terminal benefits	9,022	12,510
Medical	1,694	1,484
Leave pay	12,185	4,934
	<u>=====</u>	<u>=====</u>
	122,769	116,648
	<u>=====</u>	<u>=====</u>
The average number of employees during the year was:		
	2006 Number	2005 Number
Permanent	1,390	1,515
Seasonal	40	55
	<u>=====</u>	<u>=====</u>
	1,430	1,570
	<u>=====</u>	<u>=====</u>
	2006 Sh'000	2005 Sh'000
5 NET FINANCE (COSTS)/INCOME		
Interest payable on loans and overdrafts	(3,316)	(1,333)
Dividend income	756	1,524
Net foreign exchange (losses)/gains	(4,566)	(1,381)
Gain on valuation of quoted shares	-	34
	<u>=====</u>	<u>=====</u>
	(7,126)	(1,156)
	<u>=====</u>	<u>=====</u>

KAPCHORUA TEA COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 TAXATION

	2006 Sh'000	2005 Sh'000
(a) Tax charge		
Current taxation based on the adjusted profit at 30% - Current	-	15,769
- Prior year overprovision	-	(887)
	-	14,882
Deferred tax credit - (note 17)	(3,579)	(3,694)
	<u>(3,579)</u>	<u>11,188</u>
(b) Reconciliation of expected tax based on accounting profit to tax charge		
Accounting (loss)/profit before taxation	<u>(13,372)</u>	<u>37,277</u>
Tax at the applicable rate of 30%	(4,011)	11,183
Tax effect of expenses not deductible for tax purposes	660	2,515
Tax effect of income not taxable	(227)	(1,623)
Prior year overprovision	-	(887)
	<u>(3,579)</u>	<u>11,188</u>
(c) Tax Movement		
Brought forward	617	(5,273)
Taxation paid	7,575	20,772
Income statement credit/(charge)	-	(14,882)
	<u>8,192</u>	<u>617</u>

7 (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share is calculated by dividing the profit attributable to shareholders with the number of ordinary shares in issue during the year.

	2006 Sh'000	2005 Sh'000
(Loss)/earnings		
(Loss)/earnings for purposes of basic and diluted earnings per share	<u>(9,793)</u>	<u>26,089</u>
Number of shares		
Number of ordinary shares (thousands)	<u>3,912</u>	<u>3,912</u>
(Loss)/Earnings per share		
Basic and diluted (Sh)	<u>(2.50)</u>	<u>6.67</u>

There were no potentially dilutive shares outstanding at 31 March 2006 or 31 March 2005.

8 PROPOSED DIVIDEND

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. At the meeting to be held on 19 July 2006, a first and final dividend in respect of the year ended 31 March 2006 of Sh 0.5 per share (2005 - Sh 5 per share) amounting to a total dividend of Sh 1,956,000 (2005 Sh 19,560,000) is to be proposed. The financial statements for the year ended 31 March 2006 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ended 31 March 2007.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh 000	Machinery & equipment Sh 000	Tractors & accessories Sh 000	Motor vehicles Sh 000	Office equipment furniture & fittings Sh 000	Computers Sh 000	Capital work in progress Sh 000	Total Sh 000
COST OR VALUATION								
At 1 April 2004	158,841	75,750	22,254	9,797	5,347	5,942	4,642	282,573
Additions	662	45,210	2,330	2,643	62	469	-	51,376
Disposals	-	(370)	(3,661)	(1,251)	(966)	(363)	-	(6,611)
Reclassifications	219	4,423	-	-	-	-	(4,642)	-
At 31 March 2005	159,722	125,013	20,923	11,189	4,443	6,048	-	327,338
Comprising:								
At Valuation – 2002	157,081	64,751	-	-	-	-	-	221,832
At Cost	2,641	60,262	20,923	11,189	4,443	6,048	-	105,506
At 31 March 2005	159,722	125,013	20,923	11,189	4,443	6,048	-	327,338
COST OR VALUATION								
At 1 April 2005	159,722	125,013	20,923	11,189	4,443	6,048	-	327,338
Additions	1,904	12,985	85	1,752	347	714	-	17,787
Disposals	-	(920)	-	(1,447)	-	(1,597)	-	(3,964)
At 31 March 2006	161,626	137,078	21,008	11,494	4,790	5,165	-	341,161
Comprising:								
At Valuation – 2002	157,081	64,751	-	-	-	-	-	221,832
At Cost	4,545	72,327	21,008	11,494	4,790	5,165	-	119,329
At 31 March 2006	161,626	137,078	21,008	11,494	4,790	5,165	-	341,161

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9 PROPERTY, PLANT AND EQUIPMENT

	Buildings Sh 000	Machinery & equipment Sh 000	Tractors & accessories Sh 000	Motor vehicles Sh 000	Office equipment furniture & fittings Sh 000	Computers Sh 000	Capital work in progress Sh 000	Total Sh 000
DEPRECIATION								
At 1 April 2004	18,026	16,468	18,077	8,588	4,158	3,397	-	68,714
Charge for the year	9,115	8,422	2,507	791	205	1,121	-	22,161
Eliminated on disposal	-	(370)	(3,661)	(1,251)	(659)	(328)	-	(6,269)
At 31 March 2005	27,141	24,520	16,923	8,128	3,704	4,190	-	84,606
DEPRECIATION								
At 1 April 2005	27,141	24,520	16,923	8,128	3,704	4,190	-	84,606
Charge for the year	9,112	12,035	1,759	1,148	196	1,097	-	25,347
Eliminated on disposal	-	(920)	-	(1,226)	-	(1,576)	-	(3,722)
At 31 March 2006	36,253	35,635	18,682	8,050	3,900	3,711	-	106,231
NET BOOK VALUE								
At 31 March 2006	125,373	101,443	2,326	3,444	890	1,454	-	234,930
At 31 March 2005	132,581	100,493	4,000	3,061	739	1,858	-	242,732
NET BOOK VALUE (Cost basis)								
At 31 March 2006	59,843	88,623	2,326	3,444	889	1,454	-	156,579
At 31 March 2005	62,334	85,806	4,000	3,061	739	1,858	-	157,798

Included in property, plant and equipment are assets with an original cost of Sh 30,761,835 (2005- Sh 26,541,634) which are fully depreciated and whose normal depreciation charge for the year would have been Sh 6,226,848 (2005 -Sh 5,367,307).

Buildings, machinery and equipment were revalued as at 31 March 2002 by Lloyd Masika Limited, registered valuers and estate agents.

The company has pledged its buildings on the Nandi Hills property, LR No. 11770, with a net book value of Sh 132,581,000 to secure bank borrowings granted to it as disclosed in note 19.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10	PREPAID OPERATING LEASES	2006 Sh'000	2005 Sh'000
	COST		
	At 1 April	24,131	24,131
	ACCUMULATED AMORTISATION		
	At 1 April	2,246	2,222
	Amortisation charge for the year	24	24
	At 31 March 2006	2,270	2,246
	NET BOOK VALUE		
	At 31 March	21,861	21,885

The company has pledged all its leasehold land to secure bank borrowings granted to it as disclosed in note 19.

Leasehold land was last revalued as at 31 March 2002 by Lloyd Masika Ltd, registered valuers and estate agents, at Sh 57 million at that time, based on open market value.

		2006 Sh'000	2005 Sh'000
11	INVESTMENTS		
	<i>Available for sale:</i>		
	Quoted: Trade		
	At market value	35	35
	Unquoted:		
	At cost	682	663
		717	698

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 BIOLOGICAL ASSETS

	Tea bushes & nurseries Sh'000	Timber trees Sh'000	Fuel trees Sh'000	2006 Total Sh'000	2005 Total Sh'000
Carrying amount at 1 April 2005	305,824	205,008	33,916	544,748	548,887
Expenditure during the year	2,763	952	1,746	5,462	3,753
Decrease due to harvest	-	(408)	(419)	(827)	(2,405)
	<u>308,587</u>	<u>205,960</u>	<u>35,662</u>	<u>549,383</u>	<u>550,235</u>
Gains/(losses) arising from changes in fair value attributable to physical changes	3,554	(21,343)	14,572	(3,217)	(9,858)
(Losses)/gains arising from changes in fair value attributable to price changes	(62,419)	63,051	-	632	4,371
	<u>(58,865)</u>	<u>41,708</u>	<u>14,572</u>	<u>(2,585)</u>	<u>(5,487)</u>
Carrying amount at 31 March 2006	<u>249,723</u>	<u>247,260</u>	<u>49,815</u>	<u>546,798</u>	<u>544,748</u>

Significant assumptions made in determining the fair values of biological assets are:

- Tea bushes are considered to be productive for an estimated period of 30 years.
- The expected market price of tea will remain constant, based on the dollar average price for the last five years and the ruling rate of exchange at year end. Firewood and timber prices are also expected to remain constant.
- A discount rate of 14.8% per annum is applied to discount the expected net cash flows arising from the asset.
- Based on the biological transformation which the tea bushes and tea leaf undergo, 60% of future cash flows less point of sale costs and tea processing income are discounted to determine the fair value of tea bushes. The remaining 40% of net market value is assigned to regeneration of tea leaf.
- The maturity period of firewood and timber trees is between 5 and 25 years depending on the species of the tree.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Sh'000	2005 Sh'000
13 INVENTORIES		
Tea stocks	14,575	44,015
Stores	9,229	19,519
Firewood	5,452	4,239
Timber	482	147
	<u>29,738</u>	<u>67,920</u>
14 TRADE AND OTHER RECEIVABLES		
Tea receivables	77,395	90,175
VAT recoverable	9,743	9,564
Staff receivables	4,750	5,435
Other	3,274	38,952
	<u>95,162</u>	<u>144,126</u>
15 RELATED COMPANIES		
Due from:		
Tinderet Tea Estates (1989) Limited	584	342
	<u>584</u>	<u>342</u>
Due to:		
Williamson Tea Kenya Limited	10,298	5,188
Williamson Power Limited	-	-
Kainosi Tea Estates Limited	2,155	481
Williamson Developments Limited	2	-
Changoi Tea Estate Limited	5,072	-
	<u>17,527</u>	<u>5,844</u>
The above group company balances are all unsecured and on normal commercial terms.		
	2006 Sh'000	2005 Sh'000
16 SHARE CAPITAL		
Authorised, issued and fully paid:		
3,912,000 ordinary shares of Sh 5 each	<u>19,560</u>	<u>19,560</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using the enacted tax rate of 30%.

	2006 Sh'000	2005 Sh'000
The net deferred income tax liability is attributable to the following items:		
Deferred tax liabilities:		
Accelerated capital allowances	62,930	62,378
Revaluation surplus	23,505	25,480
Fair value adjustment – biological assets	120,694	121,469
Unrealised foreign exchange gains	17	147
	<u>207,146</u>	<u>209,474</u>
Deferred tax assets:		
Unrealised foreign exchange losses	-	(29)
Provision for employee entitlements	(14,325)	(13,350)
Leave pay provision	(1,045)	(992)
Stock provision	(168)	-
Fair value adjustment – tea stocks	(84)	-
	<u>(15,622)</u>	<u>(14,371)</u>
	<u>191,524</u>	<u>195,103</u>
The movement on the deferred income tax account is as follows:		
At 1 April	195,103	198,797
Income statement credit(note 6(a))	(3,579)	(3,694)
	<u>191,524</u>	<u>195,103</u>
At 31 March	<u>191,524</u>	<u>195,103</u>
18 PROVISION FOR EMPLOYEE ENTITLEMENTS		
At 1 April	44,500	40,409
Provision for the year	7,719	8,234
Payments made in the year	(4,468)	(4,143)
	<u>47,751</u>	<u>44,500</u>
At 31 March	<u>47,751</u>	<u>44,500</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Sh'000	2005 Sh'000
19 BORROWINGS		
Bank loans denominated in US\$	7,007	14,518
Bank overdraft	6,647	-
	<u>13,654</u>	<u>14,518</u>
The borrowings are repayable as follows:		
Within one year	13,557	7,208
In the second year	97	7,310
	<u>13,654</u>	<u>14,518</u>
Amounts due for settlement within one year	(13,557)	(7,208)
Amounts due for settlement after one year	<u>97</u>	<u>7,310</u>

The effective interest rates on the borrowings was 8% (2005 – 8%)

Details of securities for borrowings:

- Fixed and floating debenture over company's assets registered and stamped to cover Sh 62,282,000.
- Legal mortgage over I.R No. 11770 in the name of Kapchorua Tea Company Limited registered and stamped to cover Sh 62,282,000 supplemental to the debenture.

Borrowing facilities

The company has undrawn committed borrowing facilities amounting to Sh 17,003,000 (2005 – Sh 20,124,000). The borrowing facilities consist of cash, letters of credit and guarantees.

20 TRADE AND OTHER PAYABLES	2006 Sh'000	2005 Sh'000
Trade payables	1,875	2,915
Accruals	2,849	21,001
Other payables	10,575	12,643
Green leaf accruals	21,449	50,885
Leave pay provision	3,486	3,307
	<u>40,234</u>	<u>90,751</u>

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Sh'000	2005 Sh'000
21 NOTES TO THE CASH FLOW STATEMENT		
(a) Reconciliation of operating profit to cash generated from operations		
Operating (loss)/profit	(6,246)	38,433
Adjustments for:		
Depreciation	25,347	22,161
Leasehold land amortisation	24	24
(Profit)/loss on disposal of plant and equipment	(1,734)	(925)
Realised foreign exchange differences	(4,566)	(1,088)
Gain on revaluation of quoted shares	-	(33)
Fair value adjustments- biological assets	2,585	5,487
Operating profit before working capital changes	15,410	64,059
Decrease/ (Increase) in inventories	38,182	(10,136)
Decrease/(increase) in trade and other receivables	48,964	(40,717)
(Decrease)/Increase in trade and other payables	(50,517)	34,882
Increase in provision for employee entitlements	3,251	4,091
Movement in related company balances	11,441	2,354
Cash generated from operations	66,731	54,533
(b) Analysis of changes in loans		
At 1 April	14,518	16,679
Loans repaid	(7,209)	(6,170)
Loans received	-	3,750
Exchange difference	(302)	259
At 31 March	7,007	14,518
(c) ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	27,419	11,712
Bank Overdraft	(6,647)	-
	20,772	11,712

For the purpose of the cash flow statement, cash and cash equivalents comprise balances that are convertible to known amounts of cash and which are within three months to maturity from the date of acquisition; less advances from banks repayable within three months from date of the advance.

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 RELATED PARTY TRANSACTIONS

The company transacts with other companies related to it by virtue of common shareholding. These transactions are at arms length and in the normal course of business. Amounts not settled as at the balance sheet date are disclosed in Note 15.

	2006 Sh'000	2005 Sh'000
Sales of goods/services:		
Sales through a related party – Williamson Tea Holdings	325,968	427,986
Green leaf sales to Kaimosi Tea Estate	-	12,433
	<u> </u>	<u> </u>
During the year the following transactions were entered into with related parties		
Purchase of goods/services:		
Agency charges – Williamson Tea Kenya Limited	17,908	24,759
Service of generators – Williamson Power Limited	248	67
Technical support – Williamson Tea Holdings	4,806	6,654
Royalties and licences – George Williamson & Co Limited	4,806	6,654
	<u> </u>	<u> </u>

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2006 Sh000	2005 Sh000
Salaries and other short-term employment benefits	6,800	6,864

Directors' remuneration

Fees for services as directors	356	356
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23 CONTINGENT LIABILITIES

	2006 Sh'000	2005 Sh'000
Bank Guarantee	750	750

The guarantees have been issued by Barclays Bank of Kenya Limited on behalf of the company in favour of The Kenya Power and Lighting Company Limited. In case the liability crystallizes, Barclays Bank of Kenya Limited will bear the primary liability. However, the ultimate liability will fall on the group. In the opinion of the directors, no liability is expected to crystallise

KAPCHORUA TEA COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2006 Sh000	2005 Sh000
24 CAPITAL COMMITMENTS		
Authorised and contracted for	491	5,000
Authorised but not contracted for	18,934	27,323
	<u>19,425</u>	<u>32,323</u>

The company intends to finance these commitments from internally generated funds .

25 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance within the options available in East Africa to hedge against such risks.

26 COUNTRY OF INCORPORATION

The company is incorporated and domiciled in Kenya under the Companies Act.

27 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh'000).

KAPCHORUA TEA COMPANY LIMITED
FOUR YEAR COMPARATIVE STATEMENT

		2006	2005	2004	2003
Tea Production					
Area under tea	Hectares	673	688	688	682
Made tea - own	'000 kgs	1,589	1,762	1,648	1,765
- bought leaf	'000 kgs	2,262	2,718	1,888	1,641
Total	'000 kgs	3,851	4,480	3,536	3,406
Tea sold	'000 kgs	4,128	4,680	3,300	3,558
Average sales price per kg (gross)	Sh	108.42	114.67	126.08	116.27
Turnover (Sh'000)		462,749	571,853	437,728	413,673
(Loss)/profit (Sh'000)					
(Loss)/profit before taxation		(13,372)	37,277	56,292	50,226
Taxation		3,579	(11,188)	(17,649)	(15,415)
(Loss)/profit after taxation		(9,793)	26,089	38,643	34,811
Dividends		(1,965)	(19,650)	(14,670)	(14,670)
Retained (loss)/profit		(7,828)	6,439	23,973	20,141
Capital Employed (Sh'000)					
Property, plant and equipment		234,930	242,732	213,859	225,325
Prepaid operating leases		21,861	21,885	21,909	21,933
Biological assets		546,798	544,748	21,909	534,842
Investments		717	698	11	11
Current assets		161,095	224,717	208,367	174,718
		965,401	1,034,780	993,033	956,829
Financed by (Sh'000)					
Share capital		19,560	19,560	19,560	19,560
Reserves		635,151	664,504	653,085	629,112
Shareholders funds		654,711	684,064	672,645	648,672
Medium term borrowings		97	7,310	11,119	15,987
Non current liabilities		47,751	44,500	40,409	38,994
Deferred income taxes		191,524	195,103	198,797	196,510
		239,372	930,977	922,970	900,163
Current liabilities		71,318	103,803	70,063	56,666
		965,401	1,034,780	993,033	956,829
(LOSS)/EARNINGS PER SHARE		Cents			
		(250)	667	988	889
DIVIDENDS PER SHARE (par value)		%			
		10	100	100	75
DIVIDENDS PER SHARE		Cents			
		50	500	375	375
DIVIDEND COVER		Times			
		-	1.33	2.63	2.37
Exchange Rates		US \$	71.90	75.00	76.40
		UK £	125.40	141.00	142.07

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